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GENERAL

1. USSR makes sweeping trade offer to British businessmen:

The Soviet offer to buy over one billion dollars worth of British goods for 1955-57 delivery appears to be an attempt to solidify European resistance to COCOM controls and to exploit a basic policy difference between the US and its allies on East-West trade. The offer, which was made by Soviet foreign trade minister Kabanov, was evidently timed to coincide with the Berlin conference.

Kabanov's proposed import list calls for textile machinery and consumer goods as well as many items now subject to COCOM control. The British government has already called for a drastic reduction in the list of items subject to control and will now be under further pressure from commercial circles to scrap the existing program.

The British government's attitude toward the future status of the control program was revealed in its request for COCOM approval of the export to the USSR in 1955 of two television transmitters, now classified on International List I.

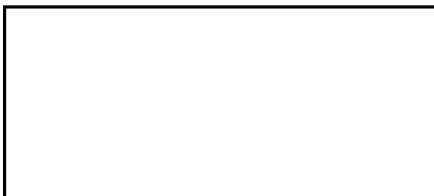
The United Kingdom has been the USSR's largest Western trading partner. Its highest recent export volume to the USSR was \$104,000,000 in 1952, when total exchanges with the UK accounted for approximately one third of the Soviet trade with the West.

As this offer is in the pre-contract stage and would require major readjustments in the Soviet export pattern, it is unlikely that UK-USSR trade will reach the proposed level, but it will probably expand considerably. [redacted]

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2. Molotov directs vague offer of Soviet mediation in Indochina to Bidault:

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Foreign Minister Bidault informed Messrs. Dulles and Eden on 3 February that Mr. Molotov had intimated the USSR is disposed

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to use its "good offices" with respect to Indochina, but did not specify what he meant. Bidault suggested that this should mean some degree of support for the French position but Molotov gave no assurances of such support.

Comment: Molotov's vague mediation hint was probably intended as a bid for French support of a five-power conference. He has made no reference to Indochina during the Berlin conference sessions, but the Soviet press officer stated that the Indochina question could be discussed at a five-power conference.

3. Molotov again links Austrian settlement to German concessions:

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In a dinner conversation on 2 February, Foreign Minister Molotov's answer to Foreign Secretary Eden's questions about the prospects of an Austrian treaty was "possibly, but I would have to have something on Germany." When Eden inquired about the chances for a Far East agreement he replied "possibly yes."

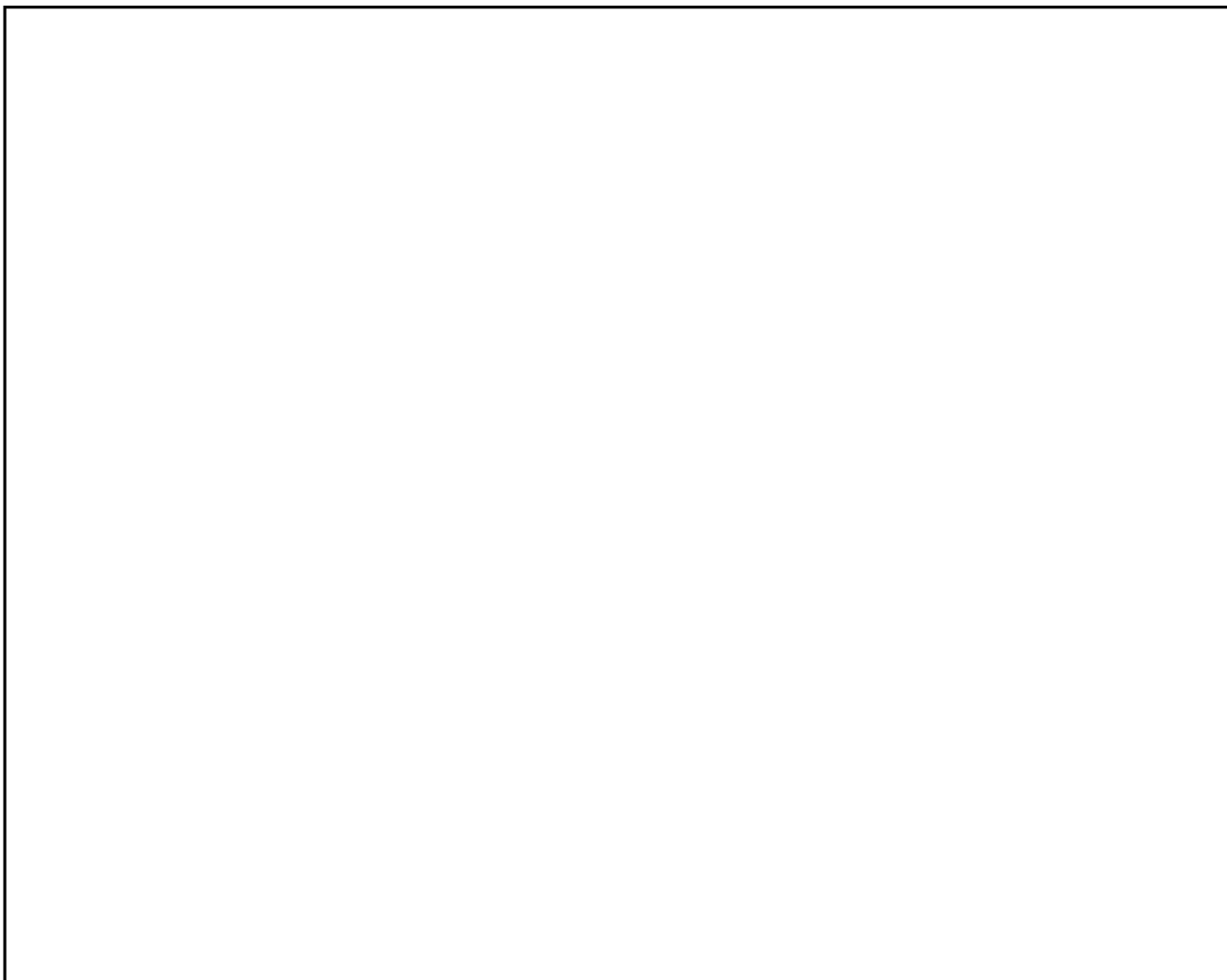
Throughout the dinner, Molotov made no effort to raise new subjects and simply answered Eden's questions.

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SOUTHEAST ASIA

6. American army attaché comments on French military effort in Indochina:

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The American army attaché in Saigon reports that staff thinking and procedures at French headquarters are of the "1935-39 vintage." General Navarre's strategy and tactics are now identical to those of General Salan, his defensive-minded predecessor.

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At Dien Bien Phu the French tied up thousands of regular troops and most of their air transport capability, only to be by-passed by the Viet Minh. Navarre's failure to carry the fight to the enemy in central Laos is incomprehensible. The French there had a three-to-one advantage over the six coolie-supplied Viet Minh battalions which, nevertheless, are now in a position to tie down a large French force indefinitely.

The attaché reports that French patrolling from strongpoints and on the delta periphery "is the exception rather than the rule." He believes that Navarre has been directed by Paris to conduct a "minimum-casualty holding action" with a view to eventual negotiations.

He reports that the consensus of American military opinion in Indochina is that the greatest deterrents to military success are lack of energetic support from Paris, inadequate training at all levels, and a defensive psychology. He observes that "the addition of unlimited supplies of the latest United States equipment will not correct these deficiencies."

NEAR EAST - AFRICA

7. British insist on 50-percent AIOC share in Iranian oil consortium:

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According to Herbert Hoover, Jr., the British government and the Anglo-Iranian Oil Company continue to insist that in the consortium proposed to reactivate Iran's oil industry, AIOC must have at least a 50-percent interest and be tacitly accorded a dominant role in management. Hoover sees some indication that the British government might modify this position.

The British also propose that the prospective members of the consortium headed by AIOC go to Tehran within a month to begin final negotiations on this and other questions.

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Foreign Secretary Eden told Secretary Dulles that it would be difficult to accept less than a 50-percent share in the consortium for AIOC, because "everyone will say that the United States is taking our position in Persia away from us." Eden acknowledged that this is not the case, but said public opinion was "very difficult."

Comment: Prime Minister Zahedi has told Ambassador Henderson that no Iranian government could approve such a degree of AIOC participation. No definitive official Iranian proposals on this point have been drawn up.

EASTERN EUROPE

8. Czechoslovakia releases American citizen in effort to improve relations:

Czechoslovakia's release on 4 February of Jan Hvasta on the American embassy's terms represents a retreat from the previous Czech stand, and is another example of the Orbit's more conciliatory approach.

Czech prime minister Siroky told the American ambassador on 29 January that the "atmosphere" for settlement of all outstanding issues between the two countries is "much better" than in the past, and indicated that the Hvasta case should not be permitted to stand in the way.

9. Socialist penetration concerns East German Communists:

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An East German Communist Party (SED) survey of the Agfa Film Factory in Wolfen has revealed that the SED has done no effective political work in this enterprise since the June riots, while agents of the West German Social Democratic "East Bureau" have managed to win over "a number" of SED members. The Wolfen factory was selected for the survey as characteristic of plants where hostility to the Communist regime prevails.

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Comment: Underground activities of the West German Socialists in East Germany are known to be widespread, but this is the first evidence that they have been successful in winning over Communist Party members. Nearly a quarter of the SED membership is composed of former Social Democrats. Disaffection within the party has been manifested in the refusal of members to elect individuals nominated by the leadership as delegates to the party congress scheduled for March.

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